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Mr Ian Woodward,
Chairman Reliability Panel,
Australian Energy Market Commission,
PO Box A2449,
Sydney South NSW 1235

3 October 2008

By email: submissions@aemc.gov.au

Dear Mr Woodward,

AEMC Reliability Panel – Tasmanian Frequency Operating Standards Review

Thank you for the opportunity for the NGF to make a further submission on the current review. You may recall that in its previous submission the NGF raised the following issues:

- Beneficiary of the standards change should pay
- Issues to be considered in the economic analysis
- Provision of services to meet system standards
- Importance of considering all direct and indirect costs

In this response, the NGF would like to raise the following issues in respect of the Draft Decision:

- Quality of the Benefit Cost Analysis
- Support for maximum contingency size
- Support for cost recovery mechanisms

Quality of the Benefit Cost Analysis

The NGF was very disappointed in the quality and depth of analysis in the benefit cost analysis in a number of aspects. In assessing the benefits, no market modeling has been undertaken and there appears to have been a subjective elimination of many of the possible options. One example of this is the option C1 nominated by CRA in their report which was not even mentioned in the Reliability Panel's assessment.

Another example of the lack of rigour is the arbitrary assessment that TVPS would set the price for 50% of the time. The possibility of a baseload plant setting the price in the Tasmanian market for 50% of the time seems to us to be extremely unlikely and there appears to be no analysis supporting this value.

Support for maximum contingency size

From the analysis presented in the report, it appears that there is a very significant benefit for the market in limiting the contingency size. This can be accommodated by Tamar Valley Power Station (TVPS) acquiring some interruptible load which will be significantly cheaper than the market finding additional fast raise. This also puts the cost for the management of this issue with the beneficiary, namely TVPS.

This issue has already appeared on the mainland when Kogan Creek was commissioned but was not addressed at that time. The solution chosen by the panel is commended. NGF would like to raise the issue that it should not be assumed that the current level of 144MW is necessarily the most efficient level for this contingency cap. The NGF would welcome some further analysis by the Reliability Panel in establishing whether there is merit on lowering this limit.

Support for cost recovery mechanisms

In our original submission, we noted that:

> *We consider, however, that the costs that result from changing the system standard should be applied to those that required or directly benefit from the change. In addition the principle of grandfathering for existing investments, to respect the physical capability that the plant was originally designed to achieve at the time of commissioning, should be applied.*

Whilst the contingency limit will address a part of the problem, the incumbent generators will still be penalised for the tighter standard. We note that in section 4.5 of its Draft Decision the panel has recognized this issue and made helpful suggestions in relation to addressing this issue. We also recognise that it may be beyond the remit of the Reliability Panel to directly address this issue.

We recognise that the issue of protecting investments from costs derived from regulatory change is a cornerstone in developing confidence in the investment climate in the NEM. This is particularly important at this time, when the industry is changing due to the impact of a carbon constrained world and major new investments will be required. We look to the Reliability Panel to provide support for any initiative which may come forward in this area.

Of the two proposals in section 4.5, the first proposal would require a rule change but would then provide a robust solution providing certainty to investors. The second proposal appears more problematic as there does not appear to be any mechanism for “requiring” TVPS to contract. Since it would rely on a commercial contract, the solution is likely to be less robust. Some of the difficulties with the second proposal include establishing ex-ante the volume of additional FCAS required and clarifying what would be done if, on the day, the contracted service were either insufficient or failed to be delivered.

For any queries on this submission, please contact the undersigned on 02-62435120.

Yours sincerely,

John Boshier
<u>Executive Director</u>